

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED RESTRUCTURE AND REPRICING)
OF AT&T'S CHANNEL SERVICES TARIFF) CASE NO. 89-168

O R D E R

INTRODUCTION

Procedural Background

On July 21, 1989, AT&T Communications of the South Central States, Inc. ("AT&T") made a tariff filing to reprice and restructure its channel services tariff. The tariff filing was suspended for investigation and possible public hearing on August 2, 1989.

On August 16, 1989 and August 17, 1989, respectively, Reo Johns, property valuation administrator, Pike County, Commonwealth of Kentucky, and Tommy M. Smith, property valuation administrator, Madison County, Commonwealth of Kentucky, filed motions for limited intervention. These motions were granted on September 5, 1989.

Informal conferences between AT&T and the Commission's Staff were held on August 30, 1989 and February 8, 1990. As a result of the first informal conference, AT&T agreed to an extension of the suspension period on September 22, 1989.

On October 20, 1989, AT&T filed a motion to implement a partial rate reduction in the amount of \$824,000, applied to its Megacom, Megacom 800, Software Defined Network, 800, and 800

Readyline services. On November 6, 1989, J. Paul Warnecke, director, division of telecommunications, department for facilities management, finance and administration cabinet, Commonwealth of Kentucky, filed correspondence with the Commission supporting AT&T's motion. On December 7, 1989, AT&T filed a motion to withdraw its October 20 motion, except as it related to Software Defined Network Service, and for an expedited decision. On December 14, 1989, the Commission granted AT&T's December 7 motion and authorized reduced rates for Software Defined Network Service, effective December 15, 1989. The revenue decrease to AT&T was \$94,000.

Informal conferences were held to resolve issues concerning AT&T's tariff filing and avoid the need for a public hearing. As a result, to date, a public hearing has not been held and the Commission finds that a public hearing is not necessary in order to reach this decision.

DISCUSSION

Tariff Structure

AT&T's current private line or channel services tariff was inherited from South Central Bell Telephone Company ("South Central Bell") at the time of divestiture; that is, AT&T mirrored South Central Bell's private line tariff. At the time, both AT&T and the Commission recognized mirroring as a short term solution to AT&T's need for private line rates and charges when none specific to AT&T had been developed. However, as a result, AT&T's

current private line rate structure predates the access charges environment and reflects a cost structure different from AT&T's cost structure.

The proposed private line rate structure mirrors AT&T's interstate rate structure and realigns private line rates with costs. In large part, AT&T accomplished the realignment through (1) replacing current flat rate local channel charges with mileage sensitive charges reflective of access charges, and (2) changing interexchange mileage measurement reference points from local exchange carrier rate centers to AT&T's points of presence. Thus, AT&T contends, customers will be charged consistent with the way in which service is provided.

Other changes include the elimination of channel differentiation based on channel series type. Instead of series type, the proposed tariff differentiates between 1-way and 2-way channels, and between channels that are bridged through a local exchange carrier and channels that are directly connected to a point of presence. Also, under the current tariff, end-users are not billed Feature Group A charges associated with foreign exchange service. Under the proposed tariff, end-users would be billed the associated Feature Group A charges.

While the above discussion is not an exhaustive analysis of all changes in private line tariff structure, it does highlight the most significant changes and is sufficient to illustrate the nature of the changes. Essentially, the changes are designed to recast the current private line tariff into a form more suited to

the interexchange services provided by AT&T. As such, the Commission finds that the proposed tariff structure is reasonable and should be approved, except those tariff provisions that would allow rate changes upon 14 days notice. Such provisions are unlawful since KRS 278.180 requires 30 days notice.

Rates and Revenues

The private line rates that AT&T inherited from South Central Bell at the time of divestiture do not recover either embedded or incremental cost. In the case of South Central Bell, the Commission repriced private line services in Case No. 10477,¹ based on incremental cost. Subsequently, AT&T filed this case.

To a large extent, AT&T's rates are driven by access charges and billing costs. The proposed private line rates are priced to recover relevant costs and provide a contribution to common costs. The Commission has examined the proposed rates and related cost documentation and finds that the proposed rates are reasonable within the meaning of KRS 278.030. Accordingly, the proposed rates should be made effective on June 1, 1990, which is the earliest date that AT&T can implement the rates, contingent on the simultaneous implementation of offsetting switched services rates.

AT&T proposed to offset the revenue increase to private line services with a decrease to switched services, including Message Telecommunications Service, Wide Area Telecommunications Service ("WATS"), Pro WATS, Reach Out, Software Defined Network, Megacom,

¹ Case No. 10477, Proposed Restructuring and Repricing of South Central Bell Telephone Company's Private Line Services Tariff and Access Services Tariff.

Megacom 800, 800, and 800 Readyline services. As proposed, including repression, the revenue change is an increase of \$2,705,000 to private line services. Without repression, the revenue change is an increase of \$4,364,000 to private line services. Accordingly, in order to maintain revenue neutrality, the Commission finds that switched services rates should be reduced by \$4,364,000.

Despite informal conferences and information requests, the Commission has had a difficult time obtaining the information necessary to verify the proposed reductions to switched services rates and to design new rates consistent with this Order. Therefore, the Commission will defer a final decision concerning switched services, pending review of revised tariff sheets and demand price-out documentation.

Price Elasticity Adjustments

AT&T proposed to repress demand to adjust for price increases in the case of private line services and to stimulate demand to adjust for price decreases in the case of switched services. The Commission has reservations concerning AT&T's price elasticity estimates and econometric model specifications. For example, price elasticity estimates were developed for some services and omitted for some services. Also, the derivation of demand inputs is unclear and subject to dispute in that they appear to be based on revenue growth estimates rather than demand growth estimates. Accordingly, the Commission finds that AT&T's price elasticity adjustments should be denied.

FINDINGS AND ORDERS

IT IS THEREFORE ORDERED that:

1. AT&T's tariff filing to reprice and restructure its channel services tariff is approved effective June 1, 1990, except those provisions that allow rate changes upon 14 days notice and contingent on the simultaneous implementation of offsetting switched services rates.

2. AT&T's tariff filing to reduce rates for switched services is deferred for additional investigation.


3. AT&T shall file revised channel services tariff pages no later than May 1, 1990.

4. Within 30 days from the date of this Order, AT&T shall file revised switched services tariff pages to reduce switched services rates in the amount of \$4,364,000, effective June 1, 1990. Furthermore, these revised tariff pages shall be accompanied with a demand price-out for each switched service, using historical demand quantities specified by rate element and rate period.

Done at Frankfort, Kentucky, this 19th day of March, 1990.


PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

ATTEST:


Executive Director


Commissioner